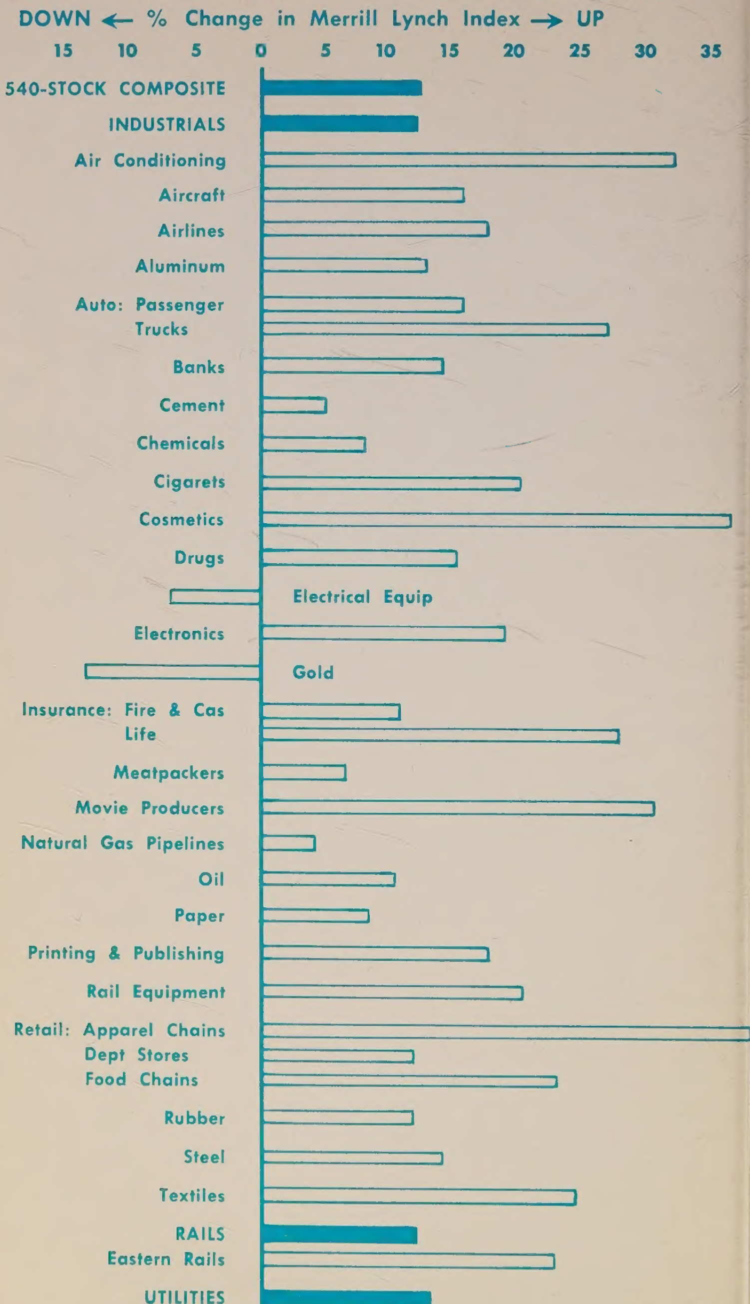
April 26, 1961

Investor's Reader

For a better understanding of business news

LOCKHEED DELIVERS FOR DEFENSE (see page 17)

FIRST QUARTER PERFORMANCE BY VARIOUS STOCK GROUPS



Accepted as controlled circulation publication at Poughkeepsie, New York, INVESTOR'S READER published fortnightly. This issue dated April 26, 1961.

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Investor's Reader

No 9, Vol 36 April 26, 1961

The State of the Stock Market

Rising Prices and Large Volume Attract the Public But Common Sense Can Save $

THIS VERY YOUNG year already has produced the most flamboyant stock market in more than a generation. The Dow-Jones industrial average—which happens to be what most everyone means when he talks of "the market"—pushed to an alltime high just before presstime; several other indexes were already entrenched at new peaks. Stock "volume"—which in common parlance means volume of trading on the New York Stock Exchange—has so far this year run at the fastest pace in history, averaging close to 5,000,000 shares a day.

These two developments have attracted wide public attention but most experienced Wall Streeters regard them as only two items among the multitude of things which measure the health of the overall market. Opinions differ as to whether the stocks of the large, well-established companies which dominate all major averages are too high or too low. But the overwhelming majority of these stocks possess underlying value —regardless of whether they may be a "buy" or "sale" at any particular price or time.

Stock trading volume so far this year is at the highest levels ever but so are the population, the number of stockholders and the number of shares listed. If anything, trading is behind the parade. Just within the past nine years the estimated number of stockholders has multiplied from 6,500,000 to about 15,000,000; the number of shares listed on the Big Board has doubled since 1954 and multiplied sixfold since 1929. Thus the proportionate rate of trading is not yet back to the 1950 level. Moreover, the current turnover of 20% means the average listed share changes hands only once in five years—hardly an extravagant pace.

What causes concern among many Wall Streeters is the hot fever in most new issues and highly speculative older issues. This caused NYSE president Keith Funston two weeks ago to issue a sharp warning to "people who have not yet discovered that it is impossible to get something for nothing * * * some would-be investors are attempting to purchase shares of companies whose names they cannot identify, whose products are unknown to them and whose future is at best highly uncertain." Meantime Greenwich Savings Bank vice president Charles G Haynsworth issued a warning against the "speculative splurge" in real estate syndicates, land development companies and the like.

Scores of specific incidents point up the all-too-frequent mania. For instance, one investor watching the news tape commented "this Laos situation is certainly getting hot." Whereupon another bystander earnestly inquired: "I don't know that stock. Where does it trade?"

Elementary Prudence

Of course even the finest stocks can temporarily be rocketed (or rocked) on the basis of free-circulating rumors about stock splits, acquisitions, new products, a Government order, a proxy fight or a myriad of other developments. And a hapless speculator can be hurt just as much trying to ride a rumor on a blue chip as in hitching a ride on some unknown security.

The principal explanations for the recent stock rise are: 1) the market usually turns well ahead of business, profits and dividends; 2) hope the present economic upswing will be vigorous enough to push business to new heights by the latter part of the year; 3) the bright growth prospects for the country and many industries which convince numerous investors today's prices for good quality stocks may seem cheap a a couple of years hence; 4) belief by some the vigor of the Kennedy Administration will stimulate faster growth and fear by others it will spur inflation.

Regardless of causes, the market is unquestionably on a much higher price-earnings base than before—not even considering the "good old days" when ten times earnings was considered a good price and 6% a proper yield for a stock. This is not apt to stop a market advance if other factors remain favorable but it certainly signals for extra caution.

Of course even today there are many individual stocks selling close to ten times earnings. On the other hand, most recognized growth industries have for some time moved to a "20 times or better" price-earnings ratio while stocks in latest favorite industries such as publishing, bowling, electronics and data processing have moved far higher still. Among individual leaders McGraw-Hill sells about 35 times last year's earnings, AMF nearly 40 times, 3M 60 times and IBM (including foreign earnings) close to 65 times.

Some prospering glamor outfits have been able to sustain unusually high ratios for years. IBM is the outstanding example. Of course IBM profits have increased fast enough so anyone who at the 1956 high paid

10 times that year's earnings would have an investment for which he paid little more than 15 times the 1960 net.

But in general, the higher the ratio the more vulnerable the stock becomes in case of a shift in sentiment or a general market decline. In any price-earnings valuation, should earnings fail to live up to expectations, the price must face reappraisal —and the higher the ratio, the more drastic the probable adjustment.

Behind the whole thing is the great imponderable of investor psychology. At one time a stock may sell at six times earnings and at another time the same stock is priced at 25 times. As one example the best publishing stocks were a bare six or eight times earnings a decade ago and now the ratio has quadrupled or more.

Nor does a bull market mean a bull market in everything. The INVESTOR'S READER of April 12 presented the sharply divergent movements of stocks in the D-J average; on the inside front cover of this issue are widely different moves of various groups since the first of the year. Significantly only two groups showed declines: 1) the electrical equipment makers which were hit by sharp sell-offs because of the anti-trust-conspiracy case; 2) gold stocks which were widely pushed last Fall by apostles of "inevitable" dollar devaluation.

But while all other groups advanced in the quarter, the rate varied from over 35% for apparel chains, cosmetics and carpets to 15% for steel and machinery and 4% for

RISING VOLUME PATTERN

Million Shares Traded	Number of Days in Each Volume Range on NYSE						
	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Over 7							1
6-to-7						1	1
5-to-6			1	1	9	15	4
4-to-5	1	1	3	15	8	6	3
3-to-4	3	10	17	4	2	..	..
2-to-3	16	9	..	1	..	..	..
1-to-2	1	..	..	..	..	..	..
Under 1	..	..	..	..	..	..	..
	——1960——			——1961—— (1st ½)			

pipelines. And despite the wide rise in the general market, stocks in a number of basic industries like oil, chemicals and steel are still at relatively moderate levels.

On the favorable side for the general market is the record sum of $1.4 billion in customer cash credits held by brokers—which indicates investors have plenty of cash on hand should they want to invest. Meantime customer debits (margin money extended by brokers) has risen only mildly since last Summer to $3.3 billion. As a matter of interest these loans represent only 1% of the market value of stocks on the Big Board alone.

In considering the impact of volume, a historical view indicates daily trading activity has been building up gradually as the number and size of listings increased. While in 1942 Big Board volume reached the million mark only one day in every five weeks, there has not been a single below-million day since October 1953 and last year there were only two days below two million.

In the past half year the pace has speeded dramatically as shown by

the table on page 3 which traces how a typical day's trading has stepped up month by month from two million in October to five million in March & April.

One interesting point is studies of recent market peaks show high trading activity has rarely coincided with the high for stock prices. Usually volume slowed down well before the market started to decline. Another point is in the entire postwar era, trading volume has mostly gone up when general business was down —and vice versa.

Leadership Quality

One consideration closely related to volume is "leadership" or the securities which are most active in the market. This has moved in the direction of lower-priced speculative issues. On the Big Board the ten most active stocks in the first week of April still included solid shares like AT&T, General Telephone and Jersey Standard along with low-priced favorites like Alleghany, Fairbanks Whitney and Electric & Musical Industries. But on the American Stock Exchange, where volume has risen proportionately much faster than on the Big Board, not one of the five most active stocks had started the week priced as high as $5. In the over-the-counter market many of the favorites are low-priced shares.

The fast movement for many lesser known stocks is often exaggerated by limited supply of shares. The latest available Amex compilation indicated one out of every five common-type stocks (not counting ADRs) had less than 400,000 shares outstanding, over 35% less than 600,000. And even of these amounts, large blocks were often closely held.

The upward price rush is especially pronounced in the flood of new issues. Some of these newcomers are companies which have developed a successful business and are ready to go public. But others are still in the embryo stage while some possess nothing but a prospectus and good intentions—if that. Some of these new enterprises will undoubtedly prove successful but many will collapse. A careful reading of the prospectus may indicate some of the problems as well as give essential information on the company's business and plans.

A clear warning about new issues can be found in very modern history. In 1945-46 a flood of new issues came out (including, incidentally, one of the present favorites—boating). The May 26, 1948 issue of INVESTOR'S READER carried a survey of 46 new issues and 27 already had fallen to "no market" or less than 50¢ bid. A resurvey made last week showed a market (with a bid of 50¢ or more) for only five of the 46 with only two issues above the offering 15 years ago. These two, Flying Tiger and what is now Transportation Corp of America, admittedly have shown lush speculative gains. Another bonanza was enjoyed by Hytron holders who exchanged for CBS stock in 1951 and shared in the broadcaster's subsequent fivefold rise. Newly merged Jack & Heintz also is somewhat above its offering equivalent but—more typically—four others who disappeared by merger salvaged only pennies a share. Some

THE FATE OF SOME 1945-46 NEW ISSUES

Issue (common stock unless noted)	Offering Price	Latest Available Report
Acro Chemical Products	3⅞	⅛ bid, ½ asked
Air Cargo Transport	3	Charter forfeited 1948
Anchorage Homes units (10A, 2B)	60¼	Filed Chapter X; liquidated 1948
Appleton Manufacturing	2⅜	Charter forfeited 1952
Ceraseal Chemical units (1 pfd, 2 com)	5	In 1958: ⅛ of a ¢ bid for pfd; no bid for com
Cortley Frosted Foods	3¼	Declared bankrupt 1952
Cosmo Records	4	In bankruptcy 1948
Doyle Manufacturing pfd	10	Bankrupt May 1949; property auctioned
Drug Products	4½	3¢ bid
Duggan's Distillers	2	¾ bid, ⅞ asked
Expreso Aero Inter-Americano	3	1¢ bid, 6¢ asked in 1960
Flamingo Air Service	2	Charter voided 1950
Fleming-Hall Tobacco units (1 pfd, 1 com)	15	Bought by US Tobacco 1951; liquidating dividends $11.75 a unit
Flying Tiger Line	5	Worth $21 (adjusted) on Amex
Globe Aircraft pfd	10	Bankrupt in 1947; assets sold
Havana Lithographing	5½	¾ on Amex
Higgins Inc	11	Worth 63¢ in NY Shipbuilding stock
Hytron Radio	5	Worth $41 in CBS stock
Jack & Heintz Precision Industries	17	Worth $19.50 in Siegler Corp stock
Jet Helicopter	2½	1956 quote: no bid, 8¢ asked
Latin American Airways	3	Out of business since 1949
Myler Plastics	2	1956 quote: 1¢ bid
Neville Island Glass units (1A, 1 com)	10⅛	Charter forfeited 1952
Pratt's Fresh Frozen Foods	6	Bankrupt 1949
Princess Vogue Shops units (1 pfd, 1 com)	10	1959 quote: no bid; asked 25¢ for pfd, 2¢ for com
Ramie Mills of Florida	2⅞	Property sold at foreclosure 1949
Reporter Publications	3½	Assets sold 1957
Silver Creek Precision	3¼	2⅝ on Amex
Super Cold Corp	6	Liquidating distribs total $7.08
Trans Carib Air Cargo Lines	3	Worth $34 (Transport Corp of America)
Gloria Vanderbilt Corp	3	Charter forfeited 1952

updated examples from the original table are shown above.

Last week the *Christian Science Monitor* summed up the market lesson editorially:

"The legitimate function of investment markets * * * is to provide capital for business undertakings, in which there is an unavoidable element of risk. That risk may be great as in the launching of a new electronics device or small as in the continued growth of an established public utility. The stock market is an institution not for creating risks but for sharing them—and the consequent rewards.

"In the selection of these risks * * * there is an immense amount of hard work * * * The SEC can * * * require that the investor be given full information but it remains for the investor to use that information—and to remember that he is buying a part in a working industry, not a sweepstakes ticket."

NATIONAL ECONOMY
Speedy Delivery

GOODS MOVE faster these well-mechanized days — which may be one reason why recent business has been so slow. In short, everyone seeks to work on minimum inventories. President Charles Lukens Huston Jr pointed up this trend at the Lukens Steel annual meeting last week: "Inventory buying is becoming a thing of the past in steel * * * Lukens today depends for sales on meeting delivery schedules which would have been considered impossible a few years ago."

WALL STREET
Big Board March

THIS Spring many a company's fancy has turned to the Big Board. In the past fortnight stocks of five concerns were listed on the senior exchange; another, Transwestern Pipeline, is slated to debut early next month and four more applicants were awaiting approval at presstime.

Two of the recent debutants are the Class A stocks of cosmetics makers **Max Factor** and **Helene Curtis Industries.** Max Factor has just publicly offered 400,000 Class A shares (200,000 of them sold by the Factor and Firestein families) bringing the total outstanding to 1,500,000 A and 1,040,000 common. Family holdings still come to 61% of the combined classes which share voting privileges.

Helene Curtis moved its 1,900,000 Class A shares from the over-the-counter market (IR, July 20) to the Big Board last week. Under the ticker symbol HC the stock opened at 50½ or double last November's quote. The company was founded in a Chicago garage 34 years ago by brothers Gerald and Willard Gidwitz, now chairman and president respectively. The Gidwitz families still control three-fifths of the company's stock.

In its early years Helene Curtis concentrated on beauty parlor equipment and supplies and is now the leader in this field. After War II the company expanded into the retail toiletry and cosmetics business; well-known products include hair dressing Suave, Stopette deodorant and dandruff treatment shampoo Enden. The company also tapped the profitable door-to-door selling market in California with the March 1960 acquisition of $2,500,000-sales Studio Girl. With volume for the year ended February estimated around $55,000,000, Helene Curtis ranks fifth in the cosmetic field after Avon, Revlon, Chesebrough-Pond's and Max Factor. It earned around $1.60 a share last fiscal year, up from $1.23.

Quick to follow Helene Curtis to the Big Board was women's apparel maker **Bobbie Brooks** (IR, Jan 20, 1960) which listed its 1,320,000 shares after a two-year apprenticeship on the Amex. In 22 years Bobbie Brooks has grown from a one-room partnership with a working capital of $4,000 to a corporation with $35,700,000 volume and profits of $1,650,000 or $1.35 a share in the

year ended April 1960. For the year ending this week it is expected to earn a little under $1.50 a share on sales of $42,000,000 or so. BBK (ticker symbol) specializes in the 15-to-24 age group and with the highly publicized post-war baby boom now maturing into adolescence, the company predicts $50,000,000 sales by next year.

One of the youngest newcomers is **Eurofund Inc** whose 1,100,000 shares opened Big Board trading at 23¼. Founded two years ago, the company buys mostly securities of companies operating in the European Common Market. Chief holdings include Philips Lamp, Farbenfabriken Bayer, Badische Anilin and Farbwerke Hoechst. When last reported as of the end of 1960, Eurofund's net asset value had risen to $22.11 a share from $17.18 in June 1959.

The **Foxboro Company** which takes its name from its 10,000-population Massachusetts hometown is a well-established instrument maker which moved into a Big Board slot a few days ago. Foxboro turns out 1,000 different items (priced from a few hundred dollars to over $250,000 for a complete system) to indicate, record and control such process variables as temperature, pressure, flow and humidity. The company has made a profit each year since its incorporation in 1914 and has paid dividends for 45 consecutive years. In 1960 profits soared 49% to $4,-250,000 or $1.75 a share *v* $1.25 while sales climbed 33% to $54,-550,000. The quarterly dividend was hiked 2½¢ in January to 17½¢.

Slated to list early next month is **Transwestern Pipeline,** formed in March 1957 to carry natural gas from the Southwest to Southern California, a market which had been exclusively served by El Paso Natural Gas. Last October Transwestern's 1,800 mile pipeline system began daily deliveries of 300-to-345,-000,000 cubic feet on a firm basis to Pacific Lighting. The initial system cost $187,000,000, can be nearly doubled to transport 640,000,000 cf daily for an additional $62,000,-000. The company's first reported earnings were $827,000 or 14¢ a share for the final 1960 quarter. It is expected to earn around 55¢ a share in 1961.

Baxter Laboratories (IR, August 17) is awaiting the official nod to move its 1,300,000 shares from over-the-counter where they presently trade around 71 after rising to a high of 77 a few weeks earlier (a year ago it sold at 37). Baxter, which made blood banking practical back in 1939, is a leading producer of intravenous solutions and enzymes. Early this year the company introduced its anti-cholesterol drug Choloxin in certain foreign countries but the drug has not yet received FDA approval here. This delay plus heavy research costs have caused first quarter earnings to dip "noticeably" from $614,000 or 47¢ a share a year ago. Realization that earnings for the first half must compare with the exceptionally good record of a year ago undoubtedly influenced the minor stock reaction. Long range, Baxter confidently expects to resume its advance which

carried earnings from 60¢ a share five years ago to $1.53 last year on volume of $33,800,000.

Oldest of the companies waiting to reach the Big Board is Amex-listed **Electric Bond & Share** which once controlled the country's largest utility empire. Last December it completed a 22-year battle to rid itself of public utility holding company status and formally become an investment company. Its principal holdings still consist of 50.8% of distraught American & Foreign Power's common (exempt from the utility act because its subsidiaries operate abroad) and 500,000 shares (3.9%) of United Gas. But its December 31 portfolio also included securities of 38 other companies. Including United Gas, these investments were valued at $66,400,000 along with cash and short-term investments of $27,000,000. Larger portfolio holdings include American Telephone and Litton Industries.

In addition EBS wholly owns three service companies: leading utility & industrial consultant Ebasco Services, a greatly revitalized offshoot of the old utility empire, and two more recent plant designing & building acquisitions — Chemical Construction Corp and Walter Kidde Constructors.

Another prospective switch from the Amex is **Continental Air Lines.** The Denver-based line greatly enhanced its status in 1957 when it won a Chicago-Los Angeles run. Presently it operates over 90% of its seat miles by turbine aircraft (but this includes Viscounts as well as 707s), which it advertises as "the highest percentage scheduled by any of the nation's twelve trunk carriers." Last month the CAB awarded Continental a Houston-Los Angeles run in the Southern transcontinental case but the company is also faced with heavier competition. For example, "we will find Convair 880s and 990s flying competitively over our routes for the first time." And president Robert F Six concedes "we stand to lose a great portion of the $1,000,000 we have been receiving in inter-line business each year from Capital" when the latter is merged into United this Summer. Continental has 1,834,000 shares outstanding which currently trade at around the 1961 high of 10 (up from the 1960 high of 7⅝) but another 1,346,000 shares may be issued on conversion of debentures.

Two-year-old **United Financial Corp of California** also awaits a Big Board berth. United Financial is an example of the savings & loan association holding company device which has recently sprouted on the Coast. The way tax laws are set up, these companies do not pay Federal income tax on the income they accrue (chiefly from brisk mortgage lending operations) as long as this income is put into a segregated reserve fund. The only catch is once this money is set aside, it can never be touched again by stockholders unless & until the company is dissolved. Thus United Financial reported earnings of $1.98 a share before general reserves last year but 98% of it has been stashed away in this permanent reservoir. This system is expected to continue and the company does not propose to pay cash dividends in the foreseeable future.

MANUFACTURING

Raybestos Brakes Into 1961

IN SUITE 119 of Manhattan's Biltmore Hotel president John Francis Deems Rohrbach of Raybestos-Manhattan Inc last fortnight addressed a record crowd of roughly 400 shareholders at the annual meeting: "We were frankly disappointed with the total sales and profits in 1960. We projected sales of $90,000,000 but we did not reach that goal." In fact RAY (Big Board ticker symbol) sales reached only $82,100,000 v 1959's record $88,700,000. Net income was also down—to $2,900,000 or $4.61 a share from a record $6.19 in 1959.

Auto, truck and farm equipment makers lowered their demand for RAY's "bread & butter" friction products of brake linings and blocks, clutch facings and automatic transmission parts. These items account for about half of RAY sales. The recession also strapped demand for industrial rubber goods such as belts, hoses and rubber covered rolls which contribute roughly 23%.

Last year's heroes were the asbestos textile and reinforced plastics divisions. Despite general business adversity asbestos textile sales held their own. Better yet, plastics sales were up 30% and another 30% rise is forecast for this year. Sales supervisor John A Bettes Jr calls the division "vital to the future growth and welfare of Raybestos-Manhattan" mainly because of the huge potential use of resinated asbestos products in rocket and missile parts.

Raybestos is the largest US producer of asbestos textiles which John Bettis points out are "very competitive." RAY has a supply advantage through its 10% interest in the Cassiar mine in British Columbia, "the world's best source of spinning fiber." Sales of Revolite asbestos pads and covers to laundries, hotels, hospitals, etc were up nearly 7% last year and another 5% increase is forecast this year.

The rest of RAY's lengthy product line ranges from abrasive wheels to bowling balls, billiard cushions and pool table pockets. RAY expanded its bowling equipment facilities at Passaic, NJ last year, expects to sell 20-to-25% more bowling balls in 1961.

The newest Raybestos product comes from the adhesives department at Stratford, Conn. It is Threadline Mortar which is used to bond masonry units. Because of its extraordinary strength it can be applied to a wider range of building forms

Threadline bonds new shapes

(see picture). More important, it requires next to no preparation and is very simple to apply. Thus it nearly halves normal construction costs and the company thinks it may replace ordinary mortar. It should also spur use of masonry blocks in wall construction where they have lately lost ground to aluminum, steel, wood and poured concrete. It is already being distributed by some 30 manufacturers of concrete blocks and president Rohrbach advises "distribution is being negotiated with one of the large manufacturers of building material products."

As for the current year president Rohrbach is "cautiously optimistic." Like many business executives these days he is somewhat disenchanted with the "Soaring Sixties." In fact he has already renamed them the "Sobering Sixties." He estimates earnings for the first quarter were "far short" of last year's "splendid showing" of $1.56 a share. Beyond that "we'll have to take a longer look at the steel index, housing starts and auto sales before venturing a prediction."

COMMODITIES

Cotton Comeback

TRADING in most domestic commodity markets has lagged from dull to doldrums in the past few years. But recently some markets have shown signs of new life. Vitality picked up with the sharp surge in soybean prices and trading which began in December. Now it appears to have caught on in some other commodities as well.

A key factor which has dulled futures trading is Government farm programs whose support prices have tended to eliminate price fluctuation. When prices sank to the support level farmers would put their crop into "the loan" rather than sell on the open market. But should prices rise by any appreciable amount, the Government would sell from its accumulated hoard which would effectively prevent prices from rising much higher. The consequent narrow price bracket has offered little opportunity for futures trading. Nor under these circumstances have many farmers, processors or others in "the trade" felt much need to hedge—which means to protect themselves against price changes in the actual commodity they handle through an offsetting purchase or sale of futures contracts.

But now & then a program crops up which allows at least a measure of flexibility. Such is the present case with cotton.

To see the difference it is wise to look at the less flexible background. As in most price support programs, the farmers technically "borrow" the support payment they receive, put their crop up as a collateral which they then can forfeit if they do not choose to redeem their crop when the loan term expires. Under the programs in effect before 1959 the Government could resell the cotton it thus acquired at a minimum of 105% of the loan price. For the base grade of cotton (middling inch) this meant an approximate 1½¢ maximum spread between support and Government resale price.

Then in 1959 the Government ini-

tiated an unusual program for cotton which gave farmers two alternatives. Choice A was an outright purchase arrangement in which the Government agreed to buy cotton for a liberal price if the grower would adhere to prescribed acreage cuts. Choice B allowed growers a 40% increase in acreage but a support level which was nearly 6¢ below the Choice A price.

The program lasted two years and the results were far from satisfactory. Only 25% of the crop went to Choice B, hardly enough to meet domestic and export needs. So the Government's huge stocks (priced at 110% of Choice B or 29.29¢ a pound) effectively set the market.

For the crop year starting this August 1 a new program goes into effect. Under it the minimum Government resale price goes up to 115% of the loan price. Furthermore in February Agriculture Secretary Orville Freeman announced the loan would be 82% of parity instead of 75% for choice A and 60% for choice B. This translates into a likely support level of 33.04¢ a pound for middling inch (*v* this season's 32.42¢ for A and 26.63¢ for B) with the minimum sale price of Government-owned cotton around 38¢ (*v* 29.29¢).

This is in direct contrast to the new feed grains program enacted last month in which the Kennedy Administration fought hard for permission to sell its grain holdings even below the support price. But the situation is different since grain surpluses are much vaster and the chief purpose of the grain resale provision is to discourage farmers from staying out of the support program with its acreage-cutting requirements. In any case, the new Administration has proposed trying to evolve tailor-made programs for every commodity.

Market Possibilities

As for cotton, the expected 5¢ a pound differential between the loan and Government sale price plus the higher support spark a number of interesting possibilities. The foreknowledge of the higher 1961/62 price has led processors to buy heavily at the cheaper current Government price. Two results: 1) The Government stock of Choice A cotton has shrunk to less than 150,000 bales out of the 7,770,000 bales it has purchased so far this season (although it still holds 2,300,000 bales of 1959 & earlier cotton); 2) the processors have started hedging their large inventories in the futures market where contracts are already anticipating a price rise in the Fall. The October contract calling for delivery of 100 bales of middling inch was selling on the New York Cotton Exchange last week for 34.30¢ a pound compared to 32.75¢ in October 1960. Volume in February and March was highest in over a year and cotton men see interest becoming more intense as the new crop year approaches.

The farmer stands to benefit, too, for when the going price does rise above the support level, he can redeem his crop from the loan and sell it in the open market. Again, this will not only restore a certain amount of freedom to the market place but will leave less cotton on Uncle Sam's hands.

CONSTRUCTION

Raymond International Route

BLUNTLY and pointedly chairman George Ferris of $63,000,000-assets Raymond International Corp warned 200 stockholders when he opened the 59th annual meeting: "The construction business is a risky business." His proof: although Raymond completed $112,500,000 in contracts in 1960, an 18% increase over 1959, earnings were down to $1,640,000 or 55¢ a share from $1.72 in 1959 and the record $2.15 in 1957. Raymond's 2,970,000 shares of common were also down, trading at a mid-point between their 1959 high of 25 and this year's low of 15.

Headman Ferris explained Raymond's earnings dip "resulted largely from our participation in joint ventures to build three missile base complexes [in Plattsburg, NY, Roswell, NM and Mountainhome, Idaho] under fixed price conditions." These projects encountered unexpected changed site conditions in difficult terrain under Government-urged speed-up conditions. This necessitated adjustments "costing millions of dollars." Raymond estimates its portion of the final cost overrun at about $7,000,000. But George Ferris expects "substantial relief" from settlement of claims to be filed with the Government. However he emphasizes "it is difficult to estimate accurately the additional income we may receive from this work." Therefore Raymond set aside $3,500,000 out of 1960 earnings to cover any eventual loss. Furthermore George Ferris cautions: "New problems could arise on the missile base contracts right up until their completion." Consequently Raymond has had enough of missile headaches and "we're not going to bid on any new missile base contracts."

Besides unforeseen missile base problems Raymond profits were adversely affected by difficult site conditions in its foundation contracts (pile driving and caisson construction) early in 1960. On the plus side for the year were the higher volume of completed contracts, greater profits from pipe manufacturing on the West Coast and successful derrick-base operations in Venezuela.

Raymond not only completed more contracts last year than in 1959, it also acquired new contracts amounting to $174,350,000 at a 70% faster rate than the year before. As a result it entered 1961 with a backlog of $139,800,000, the highest in its history. One of the most significant new projects is a $43,000,000 contract for new port, railroad and allied facilities at the Lamco (Liberian American Swedish Minerals Company) iron ore mining center in Liberia. In the Persian Gulf Ray-

mond is building two major oil tanker loading facilities for the Basrah Petroleum Group (British, American, Dutch and French interests); in Venezuela an offshore gas conservation plant for a Shell subsidiary. Also in South America Raymond has a $16,500,000 contract to build a harbor for Guayaquil, Ecuador. And among continuing projects is construction of an east-west mountain highway in Thailand.

George Ferris told stockholders: "On the international scene there have been heightened political risks and increased competition. But we expect our work abroad to progress at about the same rate as last year." Raymond operates in 20 countries in Africa, South America and the Middle East.

At home Raymond also has an impressive list of new contracts underway. Perhaps the most interesting is the joint venture of Raymond, Tidewater Construction, Peter Kiewit Sons, Omaha and Merritt, Chapman & Scott to build the 17½-mile roadway, bridge and tunnel sequence (see artist's illustration above) spanning lower Chesapeake Bay from the Delmarva peninsula to the Norfolk area. This will eliminate a pleasant but traffic-bottling ferry ride on a major North-South travel link. The first pile was driven last October and the project is scheduled for completion by 1963. In Canada Raymond is constructing several wharves and a town site for a mining camp at Lac Barbel, Quebec. Work continues on the Toronto subway. Chairman Ferris explains Raymond's policy in bidding for domestic (including Canadian) business: "Right now we're concentrating on our present backlog but that does not in any way preclude our seeking new business. But we intend to bid only on the jobs offering good profit in those areas in which we are well qualified to operate."

Chairman Ferris hesitates to predict earnings but suggests "1961 earnings are not likely to make records but we're going to have a much better year than 1960."

GARDENING
OM Scott Blooms

FOR NEARLY a hundred years the OM Scott & Sons Company of Marysville, Ohio has supplied the needs of America's gardeners and lawn lovers. The small $30,000,000-assets company produces a wide range of yard-care products. Among the best-known brands are Family and Play grass seed, Turf Builder fertilizer and Halts crabgrass control. Scott also has a "substantial" private brand business and through subsidiary American Bulb of Chicago, "a not very large" flower bulb, seed and plant operation.

Scott treasurer William M Gatheral analyzes the business: "Our market is excellent. We estimate there are at least 25,000,000 lawns in the country and if we could sell each one of them only ten dollars worth of our products every year that would be a $250,000,000 business."

However Bill Gatheral is quick to point out "we don't expect to sell to all" the lawn owners. "Some don't have enough money and a lot of people just don't care." In the year ended last September Scott volume came to $38,400,000, a 26% increase over fiscal 1959. Profits rose to $1,800,000 or $1.20 a share from 99¢.

Moreover Scott has plenty of competition eager to get a share of the garden market. On the grassy side "we have mostly local competition." In fertilizers, weed & pest controls, etc Scott has to deal with duPont, Dow, International Minerals, Swift and Diamond Alkali (IR, March 29).

But Edinburgh-born Gatheral maintains "we are way ahead in the field with our products." Scott stresses the importance of lawn care throughout the whole year. "If you follow our program you get a darn good lawn." For "accurate application of our products" the company sells a spreader which "is quite important to us." Scott hardware also includes "an electric lawn mower which we've never really pushed" and a hand mower to be introduced this year "for there seems to be a tendency for small lawn owners to swing back" to manual mowing.

Also this year Scott will promote a rose program "pretty well along the same lines as our lawn program." It consists of a rose bush fertilizer Dawn, an insecticide Haze and "a unique applicator" called Zephyr.

Altogether Bill Gatheral feels "we have quite a rosy future." Apparently investors agree. The 1,200,000 non-voting Class A shares trade over-the-counter around 58, nearly ten times the adjusted 1959 low and an electronics-like 48 times earnings. All the 238,000 voting B shares "are very closely held" as is part of the A stock although the company "will not disclose any figures on that."

From 1956 through last year Scott made semi-annual 5% stock disbursements but "that caused a lot of trouble with accounting." It now intends to pay cash twice a year, distributed a nickel in December along with the last 5% stock handout. "Any further stock distribution will come in the form of a split." And Bill Gatheral flatly states "we have no intention of declaring one at the moment."

MACHINERY

S S White Downs Dissenters

THE EIGHTIETH annual meeting of SS White Dental Manufacturing Company, the nation's largest manufacturer and supplier of dental equipment, resulted in a preordained vote of confidence for 81-year-old president Frederick Steen. Stockholders cast 76% of a total vote of 324,000 shares in support of management's position against three resolutions proposed by stockholders in the proxy statement.

The resolutions called for: 1) automatic retirement of officers as well as employes at the age of 70; 2) an age limit of 73 for directors; 3) annual elections of directors. Currently a third of the board is chosen each year for three-year terms.

The opposition was spearheaded by Chicago broker Straus, Blosser & McDowell which holds 9,200 shares. The firm was represented by Charles Schwartz who pointed out that, although sales last year climbed 3% to $33,700,000 for the second best year in White history, profits declined 9% to $1,320,000 or $3.39 a share. By contrast chief competitor Ritter Company reported an 8% gain in earnings on a 6% increase in sales volume. In research White's $760,000 budget represented only 2% of sales *v* 4% or so for Ritter.

President Steen argued: "Profits last year were adversely affected by abnormal initial costs occasioned by introduction of major items of equipment. During the past year we experienced mounting expenses, a condition felt generally in the dental industry. We have made every effort to control the situation but it is difficult in face of creeping inflation which continues to increase operating costs to higher levels."

For 1961 prospects seem cheerier. Fred Steen observed: "The outlook appears to indicate improvement. Sales should show a moderate increase. Shipments of new types of equipment in this quarter should improve equipment sales and since our business is closely associated with public health we should experience at least a moderate increase in

White Selectron

sales of dental merchandise." All of which may augur well for future stockholder support.

An additional reason may be the sturdy dividend record of S S White which has made a cash disbursement throughout its 80 years. The current rate is 45¢ quarterly for each of the 390,000 common shares which trade on the Big Board around 54.

MANUFACTURING
Gloom At Elastic Stop Nut

AFTER a somewhat dour 1960 during which sales fell 7% to $28,400,000 and profits 33% to $2.57 a share, the Elastic Stop Nut Corporation of America found the recession still on when the new fiscal year started December 1. At the annual meeting held two weeks ago at the company's main plant and executive headquarters in Union, NJ, president William F McGuinness announced consolidated earnings for

the first quarter ended February of \$329,000 or 56¢ a share down from 59¢ (reported on an unconsolidated basis) last year and 80¢ in cheerier 1959. President McGuinness blamed competitive price pressures. Also "we had to pay more for labor * * * In other words the squeeze is on."

Best year for Elastic Stop Nut was 1959 with profits of \$2,350,000 or \$4.08 a common share on sales of \$30,370,000. That year all divisions of the company improved both sales and earnings and thanks to careful plans for stocking raw material the company was able to maintain normal operations during the steel strike. However in the 1959 annual report president McGuinness noted Government outlays for manned military aircraft would likely be less than in recent preceding years.

Automated Plant

Stop nuts and other such self-locking fittings represent about 70% of Elastic Stop Nut sales and four-fifths of this business is for the aircraft industry. A stop nut is a specialized nut with a red elastic collar which prevents it from loosening under vibration despite the fact it is not wrenched tightly against another surface. ESN (as the company is abbreviated on the Big Board) makes about 4,000 different types and sizes of stop nuts at its nicely automated main plant in Union. While the basic stop nut patents have long since expired the company still maintains exclusive rights on a number of other fastening devices. Among them are the Rollpin, a self-locking spring pin which is used in metal working and a self-anchoring nail which is used to fasten shingles to insulating boards.

Another sixth of Elastic Stop Nut sales is in electronic and pneumatic devices, control equipment and highway traffic signs. The remainder is derived from the Stimsonite division which makes auto tail light lenses and other molded acrylic products. Its biggest customer is Ford Motor; other users include Plymouth and Studebaker.

Like all hardware producers Elastic Stop Nut is highly susceptible to vagaries in the economy. Seeking a broader base the company last December announced merger plans with textile-rubber-plastics complex Amerace Corp (formerly American Hard Rubber). ESN called off the engagement the following month but apparently it was not mutual. Amerace later invited tenders of 315,000 shares in a bid to buy control.

The tender offer expired the end of January and at last report Amerace held only 59,000 shares of the 630,000 outstanding. ESN management holds 138,000. At presstime the stock hit a new high of 32 on the Big Board. The Amerace tender offer was 25.

So far ESN has announced no new prospective partner though it is reportedly "always looking around." Perhaps management wants to wait till profits pick up a bit. For the current quarter president McGuinness expressed hope earnings "would show some improvement" over first quarter results. But they would have a long way to go before they reach the \$1.07 netted in the second quarter of 1959 or the \$1.26 scored in the same period two years earlier.

A Fresh Launching For Lockheed

Despite Huge 1960 Losses, Military Orders, Technology Brace Key Defense Contractor

LAST YEAR $534,000,000-assets Lockheed Aircraft Corp lost almost as much money as it had earned in the three preceding years combined. On sales of $1.3 billion it recorded a $43,000,000 deficit. This was due largely to management's decision to write off as of June 30 all accumulated and prospective losses on the Electra airliner, the JetStar trainer, utility & executive transport and various lesser projects. This lump-sum write-off method was subsequently adopted (IR, Oct 12, 1960) by several other participants in the disastrously costly passenger turbine craft program, notably General Dynamics and Douglas.

In Lockheed's case even after tax credits the total charge-offs came to nearly $68,000,000 to create a first half deficit of $55,400,000. But with allowance thus made for unprofitable business remaining on the books—including the "fix" required to strengthen the problem-stricken Electras—Lockheed was able to report operations solidly in the black after July 1 and reduce the final deficit by some $12,000,000 during the second half.

The first quarter of 1961 will show earnings of about 55¢ compared with 39¢ (before the write-off) a year ago. Thus chairman Robert Ellsworth Gross, the company's chief spokesman and its largest individual stockholder, appeared far from dismayed about his company's current strength or longer outlook as he flew East last fortnight to confer with company officials at Lockheed Electronics Company in Plainfield, NJ, Lockheed Aircraft Service at New York's Idlewild Airport and the Georgia division in Marietta. He observed:

"We've emerged from this whole business in a stronger position than before. Of course net worth and working capital were seriously reduced [working capital fell to a seven-year low of $44,000,000 last June from $76,000,000 in December 1959, stood at $57,600,000 at year-end] but we put the company on an immediate earnings basis—and it's on a good one now. We also gained certain tax advantages and by March 1 we managed to cut our bank loans substantially [to $35,000,000 from $70,000,000 last December 31]."

Principal source of Lockheed's

Space communications ferry

earnings, Bob Gross' optimism and a healthy $1.3 billion backlog is a steady stream of Government orders. Last year military business comprised 92% of Lockheed's sales and financial vice president Dudley E Browne expects "the percentage will be about the same in 1961." This includes a small percentage in planes and services for foreign governments.

Last year Lockheed ranked first in research, development and testing contracts awarded by the US Government—a total of $666,000,000. In production it was the No 2 contractor behind General Dynamics.

Defense Encouragement

The Lockheed chairman feels the Kennedy Administration's decisions to date on defense production policies are "encouraging." Most important is the shift in emphasis from reliance on massive retaliation to greater preparedness for brushfire war. And what he sincerely considers best for the US also happens to be good for Lockheed: "These policies emphasize fields we have been working in for some time."

Prize Lockheed project is the submarine-borne Polaris ballistic missile for which it is prime contractor. President Kennedy has recently stepped up orders for Polaris subs which will of course increase requirements for the missile itself. In line with a previous Eisenhower directive, he also authorized extra funds to extend the range of the missile from 1,500 miles to 2,500. One offset for Lockheed is cancellation of a planned Polaris installation on the cruiser *Long Beach.*

Another major Lockheed strength is anti-submarine aircraft. "Here we've always been active and have valuable experience." Lockheed's P2V Neptune is now in its 16th year of manufacture. Under Navy contract Lockheed has developed the faster, longer-range, turboprop-powered P3V, a version of the Electra. The first production P3V (see cover) was christened Orion and dedicated by the Navy last week.

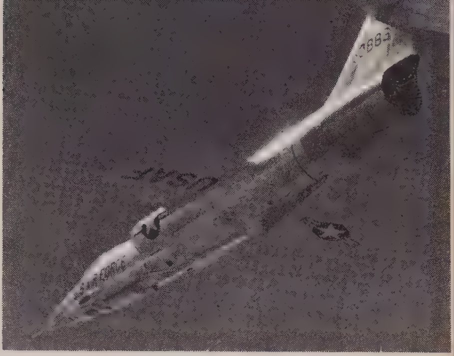
Bob Gross next cites the F-104 Starfighter which has been in production since 1954. "In line with our belief in the future of manned aircraft—which also appears in keeping with Administration plans—we look for the 104 to remain in production for at least three years longer." Since 1959 the 1,500-mph fighter-interceptor has been selected as a multi-mission fighter by Belgium, Italy, the Netherlands, West Germany, Canada and Japan. Present plans call for production in these countries of over 1,200 planes in a five-year period, with Lockheed to receive royalties, license and service fees plus revenue from sale of parts and planes to licensees. It also expects additional countries to purchase Starfighters under the Mutual Assistance Program.

Headliner of Lockheed's participation in the shifting Defense emphasis is its surprise selection (most observers had considered Douglas the favorite) last month to develop a jet cargo plane for the Air Force. Designed to enhance US capability to respond to localized emergencies, the new C-141, which will be powered by Pratt & Whitney turbofan engines,

represents "a logical engineering outgrowth" of Lockheed's turboprop C-130 Hercules. For the rest of fiscal 1961 the Government has earmarked $30,000,000 to cover development costs with an additional $98,000,000 in the 1962 budget. Total cost of the proposed 100-plane fleet to be built over ten years approximates $1 billion. At least half the manufacturing is to be subcontracted.

Dudley Browne, who is well aware that Government contracts are frequently delayed or canceled, cautions: "We have won the right to develop the plane, not a purchase order." One unexpected challenge came this month from the NAACP which filed a formal complaint about discrimination at the Marietta, Ga plant where the new plane is to be built. Lockheed spokesmen however have stated the plant has been in compliance with Presidential anti-discrimination directives and expressed confidence they would be able to meet all requirements.

As part of the program to beef up military transport strength in the more immediate future (the C-141s are not expected to become operational until 1965) Lockheed also received orders for 23 more C-130E extended-range versions of the Hercules; in addition contracts for 26 C-130Bs were upgraded to the "E" configuration. But some of the gains under the new Defense program have been offset by a number of cancellations, including the sharp cutback of North American Aviation's B-70 trisonic bomber program for which Lockheed has been a major fuselage subcontractor.



Sleek F-104 Starfighter

A significant corollary to Lockheed's C-141 assignment is the possibility of future commercial orders. Says Bob Gross: "The Government had wisdom to specify that the plane combine suitably for military and commercial use. We met those specifications and I believe it will develop into a wonderful cargo plane on a world basis. As such it should be looked at by the airlines and steamship companies as well. The airlines have been thirsting for the right plane to reduce rates and expand air cargo."

But commercial considerations are a question for the future and "we have our hands full now developing it for the military," notes financial vp Browne. By & large commercial aircraft is the one big thorn in his ledger-keeping thumb: "Our greatest deterrent in recent years has been selling planes commercially at a loss—we've made no profit on transports since 1955."

Biggest transport woes came of course from the Electra whose net loss (after tax credits) to Lockheed now stands at approximately $62,-000,000. Whether renewed confidence in the Electra will generate a

new round of orders let alone profits is uncertain. Absence of orders has closed production; reviving it would be costly. Dudley Browne is "not counting on manufacturing another one commercially." But chairman Gross is somewhat more optimistic: "We're admittedly not on a sales campaign and must earn our way back gradually. However, I still believe the Electra is the finest, most economical plane for the airlines since 70% of their flights are from 250-to-500 miles. I tend to think it will come back."

For a more futuristic transport venture Lockheed will undoubtedly bid along with Boeing, Convair and Douglas on a 2,000-mph transport development project the Government promises to launch later this year. President Kennedy's 1962 budget requests $12,000,000 for this item—the first such Federal appropriation for a strictly civilian aircraft.

Aerospace Operator

But realistic Lockheed which now calls itself an aerospace rather than an aircraft outfit looks higher than planes for its future. It expects to expand further its Missiles & Space division which was established in 1954. M&S has contributed rocketing sales as well as greatly expanded aerospace technology to the Lockheed complex. Last year its sales approached $600,000,000, nearly half of the company total. Aside from Polaris, airman Gross proudly cites the division's Agena satellite orbitting vehicle. Used in the Discoverer, Midas and Samos series, it is the only space vehicle on a production line basis, has powered 16 of the 33 satellites the US has orbited to date.

One industrial space project which 63-year-old Gross believes may not be too far in the future is the establishment of a worldwide satellite communications system: "With present knowhow I would guess technical problems could be ironed out to get a unit operating in about 14 months, an operating system in three-to-four years. However this does not account for procedural, legal and permissive problems with participating companies and governments. These latter may be very time consuming. In any case, we would like to put up and maintain the satellites when the time comes and we are working with the appropriate communications companies."

As a first step Lockheed's lawyers have obtained tentative Justice Department clearance for a joint study project with other interested companies—at the same time eliciting a Justice declaration it would frown on space communications "domination" by a single firm (such as, presumably, AT&T).

While Bob Gross "stresses once & for all—we have a very good business in what we're doing," the aerospace specialist is seriously pursuing a variety of sea or earth-bound activities. For instance early in 1959 it purchased Puget Sound Bridge & Dry Dock Company of Seattle which last year did a $19,000,000 shipbuilding, repair and conversion business. Current backlog is $73,000,000.

An outside Lockheed venture is Pacific Finance Corp in which it bought a controlling interest (now 22%) from Transamerica Corp in

1943. Now it is proposed to merge Pacific Finance into Transamerica which would give Lockheed a new preferred convertible into about 520,000 shares of Transamerica, the big West Coast insurance & finance complex.

The Lockheed Electronics Company in Plainfield was formed in early 1960 around the nucleus of 1959-acquired Stavid Engineering. It racked up sales of $12,000,000 last year on components for television, tape recorder, computer and radar assemblies and the like. "It's a good bread & butter business now, 90% of which is military," says Dudley Browne. Adds chairman Gross: "Although this division started from a small base it is growing and Lockheed has extensive overall competence in electronics as well." The two executives mention plans for expansion in "information technology." One specific prospect: tailored, special-purpose computers.

Into Oceanography

Lockheed's newest area of exploration is oceanography. Chairman Bob and his brother, 56-year-old president Courtlandt Gross, recently wrote stockholders: "Perhaps in no other area have Lockheed's traditional and newly acquired skills been combined so capably as in the antisubmarine warfare and ocean systems organization we are now expanding." They point to President Kennedy's espousal of this "neglected science." Presently the company is involved in a joint feasibility and requirements study for the Navy's Atlantic Underwater Test & Evaluation Center (AUTEC) to test underwater weapons, communications and detection devices.

Chairman Gross, now in his 30th year in Lockheed management, assures exploration of these and other non-traditional fields will continue. "You can't have a company employing 15,000 engineers and not have new ideas cropping up all the time.

"Furthermore," he states, "management is definitely interested in expanding our industrial business out of plain prudence. It's a matter of getting another anchor to windward. However, since US military business is likely to be substantial the percentages of each may stay about the same." Total sales are projected to increase perhaps 50% in the next 5-to-6 years.

Back to the hard reality of the year just past, Lockheed's 37,000 shareholders watched the common stock fall from the 1960 high of 32 to a low of 18 last May, also have had to do without cash dividends after March. But the recent better operating and contract news has brought a sharp recovery for the 7,400,000 "LK" shares which soared past the previous alltime high of 39¾ set in 1959 to a new peak of 45. Last week they sold around 42.

As for dividends, chairman Gross discloses "we have no intention of resuming payments right away and won't declare until after June 30. After the losses we took we must build up our working capital as I believe our shareholders will understand." The rebuilding should continue apace this year as Bob Gross estimates record earnings "of $3 a share and we may do even better."

Golden Overtones at Magnavox

Home Entertainer Strikes Happy Chord With Military Electronics

FOUNDED in 1911 as a communications research organization, the Magnavox Company continues to pioneer in both home entertainment and sophisticated electronics. It can also entertain its 10,000 stockholders with new record earnings as well as record levels for the 2,400,000 MAG shares on the Big Board. After a 21-fold increase in a decade the stock sold at a high of 82 last week. This makes for a thin "growth stock" yield of only 1.2% since traditionally conservative cash disburser Magnavox currently doles out only 25¢ a quarter. But they can look for a stock split or stock dividend at the May 4 directors' meeting—one reason for a ten-point jump in the stock last week.

As another part of its 50th anniversary celebration the Fort Wayne electronics company will be ready with an expanded line of consumer products at the July meeting of the National Association of Music Merchants in Chicago. Among the new items:

- An electronic organ, marking Magnavox's entrance into a field so successfully exploited by Hammond and Chicago Musical Instrument (IR, April 12). President Frank Freimann notes the field "is a natural for us" not only because of "technical know-how and electronic facilities" but also because of the company's unique "distribution set-up" which includes many music dealers among its franchised dealers. The new Magnavox instrument will be "the first transistorized organ in the popular-price range."
- A tape recorder made by Collaro Ltd, Magnavox's 70%-owned British phonograph equipment subsidiary. Music man Freimann says "the recorder will sell for 30% less than comparable products and will be highly competitive in the high-quality, semi-professional market."
- An expanded line of radios "to obtain a larger share of the personal & table model radio business which last year aggregated 10,000,000 units." The line has been increased from three models starting at $24.95 to 15 models priced from $19.95.

Magnavox is also developing an inexpensive line of communication & navigation equipment for small boats. But it is Magnavox's stereophonic hi-fi and TV sales which have enabled the company to show "attractive returns which grow year by year." Magnavox was first to introduce a radio-phonograph-TV set called Stereo Theatre in 1959. Many competitors jumped into the profitable market, yet Magnavox managed to hold on to a third of this "combination" market last year.

In 1960 the company also introduced a 27″ TV receiver and a British-made Imperial automatic record changer with a stylus guaranteed for ten years. The changer which reduces record wear and distortion was included in Stereo Theatres last year, is "now being put into portables." Because of "many requests from hi-fi

fans, the changer is also being sold through jobbers." These component sales will not be a large contributor to overall volume—"only a couple of million a year."

Due to revived interest in color TV, Magnavox added a new model to the color set "we've had for five years." President Freimann estimates "we'll probably do three times the volume we did on it last year."

To simplify TV set operation Magnavox introduced "Magnalux," a device which automatically adjusts the picture to changing room light and station, leaves only two dials on the set—tuning control and station selector. While Magnalux is included on the 27″ model now, an "improved version is due later this month" in all models priced from $250.

Unlike its competitors, Magnavox has managed to keep "consistently high" profit margins on its entertainment products. It gives chief credit to its "unique" marketing arrangement of selling directly to 1,500 franchised accounts representing some 2,000 stores. This eliminates distributors' margins ("that gives us 16% leverage") and gears production more closely to sales so "we don't get involved in price wars which shrink profits." Magnavox also claims lower manufacturing costs along with high quality control because it maintains its own integrated components-to-cabinet production.

Freimann of Magnavox

Frank Freimann continually tries to dispel the notion Magnavox products are premium-priced: "We don't want to lose the prestige we have but we do want people to realize Magnavox is competitive with other manufacturers, even after the usual 20% discounts offered by other dealers."

While still overshadowed by its home entertainment products, Magnavox's sophisticated electronics have become an increasingly important part of the company's business. Last year military research & production contracts increased by 35% over 1959 (*v* a 6% gain for entertainment) to contribute 40% of total MAG volume. The major portion of the $14,000,000 which Magnavox spends annually at its research facilities in Fort Wayne, Urbana, Ill and Torrance, Cal comes from Government-sponsored projects.

At present about 75% of the Government & Industrial Electronics division's contracts are in airborne radar, submarine detection and communications. The division also develops and produces missile & satellite components. It makes data process-

ing equipment including Minicard, an electronic photo & report file system used at the Pentagon.

At the start of 1961 military backlog was in excess of $100,000,000, up from $68,000,000 the year before and double two years ago. Continuing contracts received this year include an improved model of the "Sonobuoy" anti-submarine sonarbuoy for the Navy and additional anti-sub equipment for the Air Force. Magnavox also exports military equipment for NATO. Last month Germany ordered $2,000,000 in UHF radio communications equipment. In March alone new sophisticated military electronics contracts totalled $15,800,000. But due to a recent heavy rate of shipments as well as some cancellations from Defense shifts, the backlog is "down to over $90,000,000."

While the electronics division has concentrated on the military in the past, much research is devoted to business and medical applications. Besides Minicard (developed jointly by Magnavox and Eastman Kodak) which is costly and complex, Magnavox is also working on Magnacard, a digital data handling system which should be on the market sometime in 1962. A commercial offshoot of Minicard—a relatively low-cost storage & rapid retrieval system called MEDIA—will be offered to industry later this year.

Magnavox is also studying the possible use of "advanced communications and data processing techniques in solving complex medical problems." One example is an electronic analyzer presently in use at a Fort Wayne hospital to collect clinical data on the analysis of brain waves.

Since "the industry as a whole suffered a decline last year," the $65,000,000-assets company's sales did not reach the projected $140,000,000 figure. Nevertheless volume increased about 15% over 1959 to $124,900,000. Better yet, earnings soared 40% to $6,530,000 or $2.76 a share from $1.99. Sales in the March 1961 quarter rose another 12%. Earnings, despite labor troubles in one of the company's Tennessee plants, are estimated "above" the 54¢ of a year ago.

Optimist Freimann estimates 1961 sales at $140-to-150,000,000 and earnings up a dollar to $3.75. The 55-year-old executive feels "the sky's the limit for our sophisticated electronics. They could far outgrow our consumer products over the long term." He fearlessly concludes: "We plan to double earnings in the next three years and we feel that's a conservative estimate."

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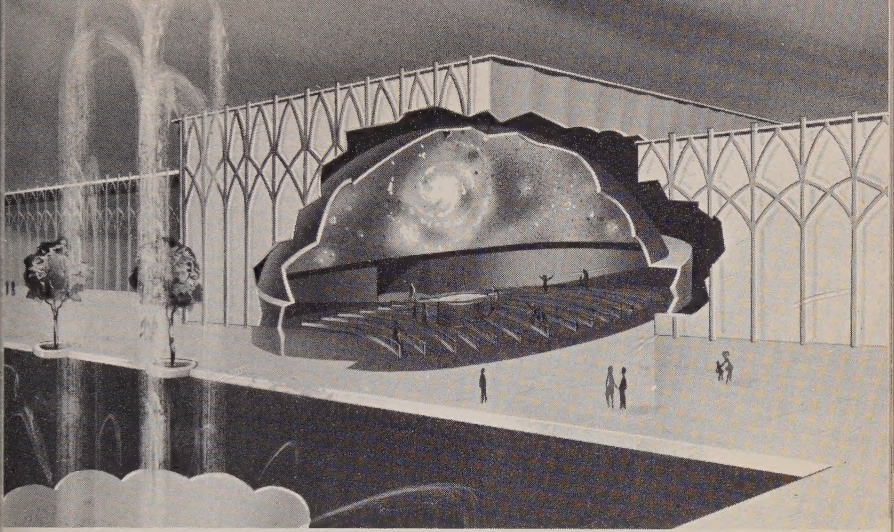


SPACEARIUM TEAM

This is an artist's view of the million dollar Spacearium theater which will open next April at the Science Pavilion of Seattle's Century 21 World Fair. The domed theater which is being built with Government funds was designed to utilize a new motion picture process developed by Cinerama Inc which employs a single lens to create an audience viewing area of 360° horizontally and 180° vertically. It will be used first to produce a *Trip into Space,* a 20-minute film financed by Seattle-based Boeing Airplane. Cinerama later hopes to develop a version modified to existing theaters.

A much-touted speculation back in the early Fifties when the Cinerama process was first announced, Cinerama has never been able to translate its high hopes into earnings. In fact it finished in the red in 1958 and 1959. Figures for all 1960 are not yet available but a report for the twelve months ended September showed a $481,000 loss after amortization charges of $1,500,000 on five Cinerama negatives the company bought from Stanley Warner in 1959.

Recently Cinerama has also announced development of a one-booth projection system designed to make the Cinerama process available to many theaters which could not adapt to the original three-booth system. Also last Fall it teamed with MGM to produce four new Cinerama films.

With the current speculator interest in low priced stocks Cinerama despite its lack of earnings tripled in the past three months as it was bulled as high as 19, now is quoted around 15. As recently as 1958 the stock traded at a mere 67¢ a share. At last report there were 2,700,000 common shares outstanding. But the number could be increased soon since there are warrants for purchase of 150,000 additional shares at prices ranging from $4-to-6.12½ plus options for another 427,000 shares.

SPURS

Every body preserves in its state of rest or of uniform motion in a straight line, except insofar as it is compelled to change that state by impressed forces.

—Newton's "Principia"
(First Law of Motion)

If you are not already a shareowner in American business but can well afford to be one, what "impressed forces" can we bring to bear on you to make you change your state from non-investor to investor? Perhaps borrowed eloquence will do the the trick.

Listen to Shakespeare: "Nothing will come of nothing."

Cervantes: "By the street of By-and-By, one comes to the house of Never."

A couplet from that rowdy Elizabethan comedy "Gammer Gurton's Needle":

A man of words and not of deeds
Is like a garden full of weeds.

Edward Young: "Procrastination is the thief of time."

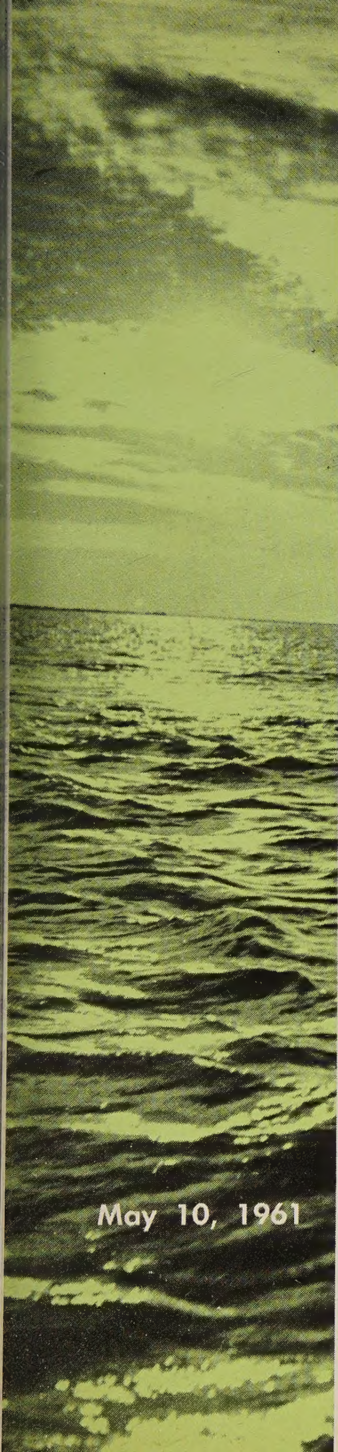
And the sage Ben Franklin: "Never leave that till tomorrow which you can do today."

When you get ready to bestir yourself, we'll be glad to help. Why not make a start today by sending for our booklet "*What Everybody Ought to Know About This Stock and Bond Business*"? It's free, and it may be just the spur you need to become a stockholder at last.

Accepted as controlled
circulation publication at
POUGHKEEPSIE, N. Y.

Published by
MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED
70 PINE STREET • NEW YORK 5, N. Y.

Please send address changes to
Western Printing Co., Poughkeepsie, N. Y.



SWEET WATER FROM THE SALTY SEA:
PROGRESS IN PROCESSES BUT
PROBLEMS IN PRICE

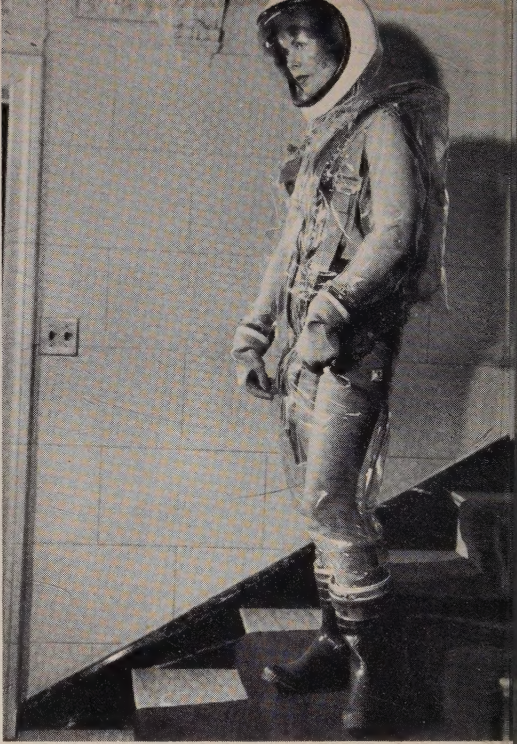
(see page 19)

Investor's Reader

May 10, 1961

For a better understanding of business news

GARRETT GIRL



This issue's beauty is clad in a "see through" version of Garrett Corporation's new protective suit. The completely air conditioned garment contains its own life-support system to protect the wearer completely against hostile environments. With certain modifications it may eventually be used by US astronauts in outer space. However, Garrett designed it for strictly terrestrial—if hardly mundane—duty: use by Martin Company ground crews in handling toxic missile fuels. Other potential applications are in chemical processing, fire fighting, mining, nuclear plants, etc.

The self-contained environmental control system is a product of Garrett's AiResearch Manufacturing division at Los Angeles which specializes in environmental control systems. AiResearch systems are found on the Boeing 707 and 720 (and will be on the 727), the Lockheed Electra, Aviation Sud's Caravelle, Republic's F-105 as well as the X-15 rocket plane and Project Mercury. AiResearch recently landed an $18,000,000 order for environmental equipment and central air data systems for the Lockheed F-104. With 1,600 Starfighters currently on order, the contract has an eventual potential of more than $64,000,000.

Another AiResearch division is located in Phoenix where it claims to be "world's largest producer of compact gas turbine engines." These are used in the ground support equipment for some 27 missile programs.

With its two major divisions so heavily immersed in military contracts, defense work accounted for 67% of Garrett's record $223,820,000 volume in the June 1960 year. Profits were also a record $5,780,000 or $5.42 on each of the 1,064,000 shares outstanding. But in the six months ended last December "high starting loads" on new programs, "an unavoidable delay" in moving into a new plant plus costs connected with the move slashed profits to only 50¢ a share from $2.54 on a 12% decline in volume. Despite the poor first half showing however founder president John Clifford Garrett assures "we feel the second half will show a very definite improvement."

Accepted as controlled circulation publication at Poughkeepsie, New York, INVESTOR'S READER published fortnightly. This issue dated May 10, 1961.